

# **CORRECTED FISCAL NOTE**

## **SB 3626 – HB 3611**

April 6, 2006

**SUMMARY OF BILL:** Reduces the sales tax rate on food and food ingredients from 6% to 3%. Increases the cigarette tax from 20 cents per pack to 65 cents per pack. Requires the cigarette tax be increased each fiscal year, beginning with FY07-08, by 3 cents per pack. Requires additional cigarette tax rate increases (in addition to the annual 3-cent per pack increase) up to an amount sufficient to offset any loss of revenue caused by the decrease in the tax rate on the retail sale of food and food ingredients for human consumption. Requires any cigarette tax revenue generated by the annual cigarette tax increase, over and above the amount necessary to offset any loss of revenue caused by the decrease in the tax rate on the retail sale of food and food ingredients for human consumption, be applied to the establishment of a food tax holiday prior to Thanksgiving or to a further reduction in the rate on the retail sale of food and food ingredients for human consumption.

### **ESTIMATED FISCAL IMPACT:**

On March 1, 2006, we issued a corrected fiscal note to reflect additional information received. We indicated that there would be a net increase to state revenues greater than \$31,300,000 to occur on a recurring basis. In addition, we indicated there would be a net decrease to local government revenues less than \$5,420,000 to occur on a recurring basis. Based on additional information, the estimated fiscal impact of this bill is:

#### **(CORRECTED)**

**Increase State Revenues – Net Impact - \$79,820,000 / Education Fund  
\$9,460,000 / Earmarked for administrative costs**

**Decrease State Revenues - \$66,050,000 / General Fund  
\$900,000 / Department of Revenue  
\$2,030,000 / Sinking Fund**

**Increase State Expenditures – \$120,000 Recurring  
\$150,000 One-Time**

**Decrease Local Govt. Revenues – Net Impact – Less than \$8,020,000  
Recurring**

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(CORRECTED)**


Assumptions:

- The legislative intent of this act is that the fiscal impact of this bill be at least revenue-neutral.
- Taxable sales of food and food ingredients in Tennessee for 2004 were estimated at approximately \$7.0 billion.
- Growth of taxable sales of food and food ingredients remain constant at 2.5% per year.
- Inflation-adjusted taxable sales for food and food ingredients in Tennessee for 2007 are estimated to be \$7.54 billion.
- Reducing the state sales tax rate on food by 3% (from 6% to 3%) will reduce state sales tax revenue by approximately \$226.2 million ( $\$7.54 \text{ billion} \times 3\% \text{ reduction} = \$226.2 \text{ million}$ ).
- Current law appropriates 4.4194% of state sales tax revenue to the municipalities within Tennessee.
- The local government share of the reduction would be approximately \$10.0 million ( $\$226.2 \text{ million} \times 4.4194\% \text{ share} = \$9,996,682$ ).
- State share of the reduction is estimated at \$216.2 million ( $\$226.2 \text{ million} - \$10.0 \text{ million local share} = \$216.2 \text{ million}$ ).
- The \$216.2 million in state revenue would have been apportioned as follows: \$66,050,000 to the General Fund, \$147,220,000 to the Education Fund, \$900,000 to the Department of Revenue, and \$2,030,000 to the Sinking Fund.
- Increasing the cigarette tax by 45 cents per pack would generate approximately \$236.5 million in recurring state revenues.
- Of the \$236.5 million that would be generated with the increased cigarette tax, approximately \$227,040,000 (96%) would go to the Education Fund and \$9,460,000 (4%) would be earmarked for expenditures related to the distribution of this revenue.
- Increasing the cigarette tax by 45 cents per pack would also generate approximately \$1.98 million in incremental and recurring local option tax revenues for local governments.
- The net decrease to local government revenues would be less than \$8.02 million per year ( $-\$10.0 \text{ million} + \$1.98 \text{ million} = -\$8.02 \text{ million}$ ).
- One-time increase to state expenditures for computer and software enhancements are estimated at \$150,000.
- Two DOR special agents to combat the importation of illegal cigarettes are estimated to cost \$120,000 per year.

- The overall impact to the state is a net increase of revenues estimated to exceed \$20,000,000. However, the General Fund, Department of Revenue, and Sinking Fund will incur decreases of revenue, while the Education Fund realizes an increase of revenues.
- This act shall take effect on July 1, 2006.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible, and "W." in the middle.

James W. White, Executive Director